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## Peru

## Coffee Annual

## Peru Targets Expanded Coffee Production

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**Report Highlights:**

FAS Lima forecasts Peru's coffee production in marketing year (MY) 2014/15 (April/March) at 4.5 million bags (60-kilograms per bag), up by 600,000 bags or increasing over 15 percent compared to our MY 2013/14 estimate. Total domestic consumption in MY 2014/15 is forecast at about 192,000 bags, essentially unchanged from MY 2013/14. We forecast Peru's exports of coffee in MY 2014/15 at roughly 4.3 million bags, up by some 549, 000 bags or 15 percent compared to our MY 2013/14 estimate of 3.7 million bags. The Ministry of Agriculture and Irrigation established in 2013 a program to renew 80,000 hectares of coffee land over the next four years. Some \$70 million has been budgeted for this program.

## **Executive Summary:**

FAS Lima forecasts Peru's coffee production in marketing year (MY) 2014/15 (April/March) at 4.5 million bags (60-kilograms per bag), up by 600,000 bags or increasing over 15 percent compared to our MY 2013/14 estimate. We estimate coffee production in MY 2013/14 coming in at around 3.9 million bags, down some 438,000 bags or about 10 percent less compared to MY 2012/13.

Total domestic consumption in MY 2014/15 is forecast at about 192,000 bags, essentially unchanged from MY 2013/14. While overall coffee consumption remains low, it has nonetheless doubled in the past five years. Peruvians are primarily consumers of soluble (instant) coffee. Instant coffee accounts for 75 percent of total domestic coffee consumption. However consumption patterns are changing and a roasted, ground coffee drinking culture is taking root.

We forecast Peru's exports of coffee in MY 2014/15 at roughly 4.3 million bags, up by some 549,000 bags or 15 percent compared to our MY 2013/14 estimate of 3.7 million bags. We foresee export volumes increasing as the coffee leaf rust outbreak abates and planted area expands as a result of the government's program to renew coffee lands.

The Ministry of Agriculture and Irrigation established in 2013 a program to renew 80,000 hectares of coffee land over the next four years. Some \$70 million has been budgeted for this program, whose funds will be channeled through the country's AgroBanco (i.e., agricultural development bank). These loans are to be repaid in eight years at a ten percent interest rate. While some farmers are questioning the credit terms, these are understood to be better than what the country's private banking sector is currently offering.

## Commodities – Coffee, Green

### Production:

FAS Lima forecasts Peru's coffee production in marketing year (MY) 2014/15 (April/March) at 4.5 million bags (60-kilograms per bag), up by 600,000 bags or increasing over 15 percent compared to our MY 2013/14 estimate. We estimate coffee production in MY 2013/14 coming in at around 3.9 million bags, down some 438,000 bags or about 10 percent less compared to MY 2012/13. Much like the case in neighboring Ecuador, we attribute the production drop in MY 2013/14 to the outbreak of the fungus *Hemileia vastatrix* which causes coffee leaf rust disease. Approximately 40 percent of Peru's total area planted has been affected by the outbreak.

### Peru, PS&D Table, Coffee, Green Bean Equivalent

Coffee, Green Peru	2012/2013		2013/2014		2014/2015	
	Market Year Begin: Apr 2012		Market Year Begin: Apr 2013		Market Year Begin: Apr 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	350	370	350	370		390
Area Harvested	315	334	320	334		350
Bearing Trees	520	550	520	550		578
Non-Bearing Trees	25	27	25	27		28
Total Tree Population	545	577	545	577		606
Beginning Stocks	14	14	44	63		20
Arabica Production	4,300	4,338	3,850	3,900		4,500
Robusta Production	0	0	0	0		0
Other Production	0	0	0	0		0
Total Production	4,300	4,338	3,850	3,900		4,500
Bean Imports	0	0	0	0		0
Roast & Ground Imports	0	0	0	0		0
Soluble Imports	0	0	0	0		0
Total Imports	0	0	0	0		0
Total Supply	4,314	4,352	3,894	3,963		4,520
Bean Exports	4,100	4,097	3,700	3,751		4,300
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	0	0	0	0		0
Total Exports	4,100	4,097	3,700	3,751		4,300
Rst,Ground Dom. Consum	10	12	10	12		12
Soluble Dom. Cons.	160	180	160	180		180
Domestic Use	170	192	170	192		192
Ending Stocks	44	63	24	20		28
Total Distribution	4,314	4,352	3,894	3,963		4,520

1000 HA, MILLION TREES, 1000 60 KG BAGS

With the coffee leaf rust outbreak in the main production areas expected to abate somewhat in MY 2014/15, we expect a slight recovery in total area harvested. FAS Lima forecasts total area harvested in MY 2014/15 at about 350,000 hectares, up some 16,000 hectares or 5 percent compared to MY 2013/14. Harvesting commences in April and peaks in the June-September period; 85 percent of the crop is however brought in between April and July. We attribute the increased in harvested area to an uptick in total area planted outside of traditional plantings areas. We are forecasting total area planted

in MY 2014/15 to reach 390,000 hectares, up 20,000 hectares or almost 5 percent compared to our MY 2013/14 estimate of 370,000 hectares.

Peru's production in MY 2013/14 was affected by the north to south spread of coffee leaf rust emanating from Central America and aggravated by inadequate local controls. Along with the presence of free water, *Hemileia vastatrix* requires temperatures of between 10 and 35 degree Celsius; the loss of moisture after (spore) germination commences will however inhibit the infection process. Under extreme conditions the disease will kill a tree. However what often occurs is that the loss in foliage diminishes the plant's ability to photosynthesize and store energy for fruit production, resulting in vastly lower yields.

While coffee production occurs throughout the eastern slope of the Andes, production is nonetheless concentrated in three main growing areas. Coffee production is gradually migrating from Chanchamayo (i.e., one of the nine provinces of the Junín region) in Peru's central highlands to the northern highlands of the Amazonas and San Martín regions. Although Chanchamayo still accounts for 28 percent of overall production, Amazonas and San Martín combined now account for over 49 percent of national production.

Peru produces Arabica coffee almost exclusively. Over seventy percent of which is of the *typica* variety followed by *caturra* (20 percent), and others (10 percent). At FAS Lima, we understand that roughly 75 percent of Peruvian coffee cultivation occurs between 1,000 and 1,800 meters above sea level. Most coffee is shade grown; plant density on farms averages 2,000 plants per hectare. Coffee in Peru remains largely hand-picked and sundried.

FAS Lima finds that the majority of Peru's coffee producers are small farmers. These cultivate coffee on plots of land averaging three hectares. Small producers often form associations or cooperatives aiming to obtain better prices, improve post-harvest production handling, and cooperate on more effective marketing strategies. Some of the larger of these associations count with a membership of over 2,000 producers. The more sophisticated of these associations count with financial institutions that provide producer loans; which partially subsidize production costs through technical assistance aimed at improving crop quality and yields. Cooperatives will market production directly or recur to coffee traders.

We notice that poor access to credit places constraints on many of the smaller coffee producers. Peru's private banks refuse to accept untitled land as loan collateral; forcing most producers to obtain credit either from coffee buyers or informal lenders. The result of which is that small producers are burdened with fixed-price sales contracts and or high repayment interest rates.

FAS Lima forecasts MY 2014/15 coffee yields reaching 771 kilograms per hectare (or ~13, 60-kg bags), recovering somewhat from the coffee leaf rust outbreak that had driven yields down to about 700 kilograms per hectare (~12, 60-kg bags) in MY 2013/14. Under more normal circumstances, yields can reach upwards of 2,500 kilograms per hectare (~42, 60-kg bags) on well managed plantations. On the less well managed coffee farms, yields drop due to poor cultivation practices and limited fertilizer use. High plant replacement costs remain a concern. Sources indicate it costs \$3,000 per hectare to replace old, less productive and or diseased plants. This forces many producers to replant on average every twenty to thirty years instead of every ten years as occurs in other coffee producing countries. At FAS

Lima we hear that annual plant maintenance costs average about \$1,200 per hectare. Based on these and other factors we calculate the average cost of production at about \$1.62 per kilogram; eighty cents of which is labor.

### **Consumption:**

FAS Lima forecasts Peru's total domestic consumption in MY 2014/15 at about 192,000 bags, essentially unchanged from MY 2013/14. While overall coffee consumption remains low, it has nonetheless doubled in the past five years. Peru, with a population of 30.1 million (Central Intelligence Agency, July 2014 estimate), has an annual per capita consumption of 600 grams. This contrasts with neighboring Colombia where per capita consumption ascends to two kilograms, or Brazil where it exceeds four kilograms.

Peruvians are primarily consumers of soluble (instant) coffee. Instant coffee accounts for 75 percent of total domestic coffee consumption. Nonetheless consumption patterns are changing and a roasted, ground coffee drinking culture is taking root. Coffee consumption among young, urban consumers is growing; consumption levels are now reaching the one kilogram per capita threshold. Domestic coffee consumption nevertheless still only accounts for about 10 percent of total production. Small corner stores (60 percent) and supermarkets (30 percent) account for the bulk of domestic coffee sales.

### **Trade:**

FAS Lima forecasts Peru's exports of coffee in MY 2014/15 at roughly 4.3 million bags, up by some 549,000 bags or 15 percent compared to our MY 2013/14 estimate of 3.7 million bags. We foresee export volumes increasing as the coffee leaf rust outbreak abates and planted area expands as a result of the government's program to renew 80,000 hectares of coffee land (see, Policy). Also with international coffee prices set to improve in 2014, due to this year's severe drought in Brazil, Peruvian farmers will have an incentive to improve their agricultural practices in order to increase production yields.

#### **Export Trade Matrix**

<b>Country</b>	Peru	
<b>Commodity</b>	Coffee, Green, HS Code 0901, in 60-Kg Bags	
<b>Destination</b>	<b>CY 2012</b>	<b>CY 2013</b>
United States	726,283	866,817
Germany	1,474,783	1,365,150
Belgium	587,250	393,450
Colombia	501,283	231,033
South Korea	139,600	183,450
Other Countries	976,517	921,667
<b>Total</b>	<b>4,405,717</b>	<b>3,961,567</b>

Source: Global Trade Atlas.

#### **Export Trade Matrix**

<b>Country</b>	Peru	
<b>Commodity</b>	Coffee, Green, HS Code 0901, in metric tons	
<b>Destination</b>	<b>CY 2012</b>	<b>CY 2013</b>

United States	43,577	52,009
Germany	88,487	81,909
Belgium	35,235	23,607
Colombia	30,077	13,862
South Korea	8,376	11,007
Other Countries	58,591	55,300
<b>Total</b>	<b>264,343</b>	<b>237,694</b>

Source: Global Trade Atlas.

Peru's total calendar year (CY) 2013 exports reached approximately 3.9 million bags (~237,694 metric tons); Germany and the United States were the two main coffee export destinations. At FAS Lima we notice that Colombia, despite the drop in exports in CY 2013, has grown in importance as a Peruvian coffee export destination. Sources inform that Peruvian coffee is often repacked and labeled in Colombia for re-export. We find that Peruvian coffee's export prices average roughly \$2,930 per metric ton in CY 2013. This represents a significant drop in price compared to the CY 2012 average price of \$3,984, which itself had dropped from the CY 2011 average price of \$5,366 per metric ton.

Peru, with some 90,000 certified organic hectares, is the world's leading exporter of organic coffee. At FAS Lima, we find that a significant portion of Peru's coffee exports are organic. We attribute this to many smaller growers' inability to pay for costly chemical fertilizers and pesticides. Foreign demand for specialty coffee however is motivating some of the smaller growers to seek out specialized certification. Current certifications, accessible even to smaller coffee farmers include:

- Fair Trade: Certified by Fair Trade Labeling Organizations International (FLO)
- Organic: Certified by several agencies such as USDA's National Organic Program (NOP), Japanese Agricultural Standards (JAS), Natureland, and the Organic Crop Improvement Association (OCIA)
- Sustainable Coffee: Certified by the Rainforest Alliance
- Café Practice: Certified by Starbucks
- Other certifications include bat friendly and bird friendly

## Policy:

The Ministry of Agriculture and Irrigation established in 2013 a program to renew 80,000 hectares of coffee land over the next four years. Some \$70 million has been budgeted for this program; funds will be channeled through the country's AgroBanco (i.e., agricultural development bank). These loans are to be repaid in eight years at a ten percent interest rate. While some farmers are questioning the credit terms, these are understood to be better than what the country's private banking sector is currently offering.

The current government has made international coffee promotion a national priority. PromoPeru (i.e., Peru's export promotion agency) and its commercial offices overseas actively promote Peruvian coffee. At the same time, some local government agencies and non-governmental organizations are promoting organic coffee production as a means for increasing farmers' income.

Peru's coffee sector generates 855,000 jobs in otherwise remote, impoverished areas of the country. The government, through DEVIDA, encourages coffee production as an alternative crop to coca leaf cultivation.